

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

RATE AND SERVICE CHANGES TO
IMPLEMENT FUNCTIONALLY
EQUIVALENT NEGOTIATED SERVICE
AGREEMENT WITH BRADFORD GROUP

Docket No. MC2007-4

**INITIAL BRIEF OF THE
AMERICAN CATALOG MAILERS ASSOCIATION**

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The American Catalog Mailers Association (ACMA), an intervener in this case, is a non-profit association of catalog mailers interested in preserving the vitality and growth of the catalog industry. We strongly support negotiated service agreements (NSAs). In fact, many of our members are actively pursuing NSAs with the Postal Service in the wake of recent rate increases. Volume incentive discounts under NSA agreements can help grow catalog mail volumes, which would otherwise decrease due to cost-pressures created by significant rate increases from R2006-1.

In this brief, ACMA does not question the terms of the Bradford Group NSA. Rather, we call to the Commission's attention one aspect of the Postal Service's methodology in determining unit cost contribution, which affects the level of discounts available to a mailer. Specifically, the Postal Service departed in this case from its previous practice of using Library Reference 15 (LR-15) to calculate contribution and instead used Library Reference 22 (LR-22), a worksheet developed not to set rates but to ensure proper apportionment of costs overall. We believe that the Commission should indicate that use of LR-22 in this case does not create a binding precedent and that, in fact, its use may not be appropriate in NSAs involving different mail profiles. As detailed below, LR-22 differs significantly from LR-15 in that it does not include the same detail as LR-15, aggregates costs differently, and could result in inaccurate contribution calculations when applied to different NSAs.

I. LR-22 was not designed to calculate unit cost contribution or to set rates.

All NSAs approved to date have used Library Reference 15 (LR-15) to calculate unit cost contribution. See, e.g., Rate and Service Changes to Implement Baseline Negotiated Service Agreement with Bookspan, Docket No. MC2005-3, Tr. 2/367; Rate and Services Changes to Implement Functionally Equivalent Negotiated Service Agreement with Discover Financial Services, Inc., Docket No. MC2004-4, Tr. 2/111; Rate and Service Changes to Implement Baseline Negotiated Service Agreement with Bank One Corporation, Docket No. MC2004-1; Tr. 2/92. In contrast, the Bradford Group NSA relies upon LR-22 to calculate unit cost contribution.

In response to an inquiry by the Office of Consumer Advocate (OCA) on the unprecedented use of LR-22, the Postal Service stated that, because the total unit cost figures in LR-15 “did not actually include total unit costs, but rather, only mail processing and delivery costs,” the Postal Service used total unit cost estimates from the final adjustment model in LR-22 to develop unit contribution estimates for the Bradford Group NSA. OCA/USPS-T1-27(c) (September 21, 2007).

The problem is that LR-22 has never been used before to set unit cost contribution estimates for an approved NSA, and for good reason: the Commission did not develop the unit cost estimates in LR-22 to design rates; rather, it developed LR-22 as an adjustment model to ensure attributable costs are apportioned properly among the subclasses. See *generally* PRC-LR-22 – Final Adjustment Workpapers (April 27, 2007).

Using LR-22 to develop unit cost contribution estimates for an NSA creates at least two problems. First, it obscures important cost differences in some instances because LR-22 aggregates presort levels and does not break down every unit cost by rate category. For example, LR-22 combines 3-digit and 5-digit flats into one pre-sort level, while LR-15 disaggregates 3-digit and 5-digit flats into two rate categories. Second, LR-15 isolates weight-related differences in mail-processing costs while LR-22 folds some of these costs into piece costs. This could have an adverse effect on a mailer seeking an NSA for pound-rated flats, an important distinction for catalog mailers because current Standard Mail rates rely on significant revenue recovery from additional ounces. The choice of LR-15 or LR-22 to calculate contribution from pound-rated pieces could significantly affect the evaluation of potential benefits of an NSA involving pound-rated pieces.

II. Creating a precedent for future NSAs by using LR-22 in this case could distort price signals and thus limit the potential value of future NSAs for both parties.

The differences between LR-15 and LR-22 are not merely academic; they create subtle and not-so-subtle distortions in the unit contribution estimates used to negotiate an NSA. The following table illustrates some of the differences that arise when mail processing and delivery unit costs are calculated under LR-22 and LR-15:

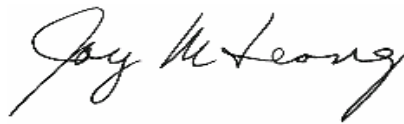
<u>Mail Processing and Delivery Unit Cost</u>		
	<u>LR-22</u>	<u>LR-15</u>
Standard Mail:		
Automated		
Mixed AADC Letters	\$0.1057	\$0.1024
AADC Letters	\$0.0917	\$0.0888
Basic Flats	\$0.3640	\$0.3205
3-Digit Letters	\$0.0863	\$0.0835
5-Digit Letters	\$0.0704	\$0.0681
3/5-Digit Flats	\$0.2568	\$0.2404
ECR Mail:		
Automated Letters	\$0.0927	n/a
Basic Nonauto Letters	\$0.0875	\$0.0932
High Density Letters	\$0.0448	\$0.0532
Saturation Letters	\$0.0448	\$0.0442
Basic Nonauto NonLetters	\$0.1119	\$0.1158
High Density NonLetters	\$0.0719	\$0.0721
Saturation NonLetters	\$0.0719	\$0.0539

These differences can be as much as 4 cents per piece. Use of LR-22, which was not developed to set rates, thus could inflate certain costs, decrease contribution, and consequently depress NSA discounts.

Conclusion

For the foregoing reasons, the Commission should clarify that the use of LR-22 in this case does not set a precedent for its use in future NSAs and that, in fact, LR-22 may be inappropriate for certain mail profiles.

Respectfully submitted,



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